Not for quotation – draft of 3/01/09

The Chicago School, Hayek, and Neoliberalism[1]

Bruce Caldwell

The tracing of influences is the most treacherous ground in the history of thought.....

F.A. Hayek [1952] 1979, *The Counter-Revolution of Science,* p. 358.

Friedrich A. Hayek taught at the University of Chicago from the fall semester of 1950 through 1962, a period during which the second, or new, Chicago School of Economics was formed.[2] The question naturally arises: What was his role in its formation?

A quick look at the historical record, and common sense itself, suggests that it must have been close to nil. Milton Friedman, whom many would consider the central figure in the School, was hired in 1946, before Hayek had arrived. Hayek tried to get a job in the Economics Department in 1948, but they declined to make him an offer. He ended up instead on the Committee for Social Thought. During his time at Chicago (1950-1962) Hayek worked principally on political philosophy rather than economics,

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[1]I originally prepared a paper entitled "Hayek and the Chicago School" for the Conference on the Chicago School of Economics, Notre Dame University, September 14-16, 2007. This greatly revised, and retitled, paper draws only in part on the earlier one. All quotations from F.A. Hayek appear with the permission of the Estate of F.A. Hayek. I received useful comments on an earlier draft from Craufurd Goodwin, Wade Hands, and Roy Weintraub, but they are exempted from responsibility for any views expressed in the paper.

[2] As the definition of "the Chicago School" is evidently contestable and contested ground, I leave it undefined, and instead simply mention here some of the principals often associated with the term: Milton Friedman, Aaron Director, Gary Becker, and George Stigler – the last of whom did not arrive in Chicago until 1958.

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with *The Constitution of Liberty* (1960) being the end result. And Hayek famously disagreed with the leader of the Chicago School, Milton Friedman, on monetary theory and methodology, two of the defining aspects of Friedman's legacy.

Consistent with the sentiments expressed by Hayek in the opening quotation, this paper will serve as a warning against *quick* looks at historical records (though I hope not against the use of common sense!) in untangling questions of influence. In a remarkable recent paper (henceforth VHM 2008), Rob Van Horn and Phil Mirowski offer a compelling revisionist account of the formation of the Chicago School(s), one which places Hayek, Henry Simons and Aaron Director at the heart of the action.[3] Their paper is based on a meticulous investigation of the relevant archival documents. After briefly summarizing some of their most important findings, I will offer a few comments about their reading of the historical record. Most of these involve small quibbles. In general, I find their new interpretation quite convincing.

Unfortunately, that account is part of a larger narrative about the roles of the Chicago School and the Mont Pèlerin Society in the formation of what Van Horn and Mirowski term "neoliberalism." This larger narrative relies much less on archival material, and contains claims (often in the form of hints and innuendoes) that have not been substantiated. In my opinion, the larger narrative is deeply flawed, and should be kept separate from the fine archivally-based research just mentioned. In later sections of the paper I will offer reasons for this judgment, and in the process offer alternative explanations to those provided by VHM about the relationship between Hayek, the Chicago School, and neoliberalism.

[3] I say School(s) because it is part of their thesis that, due to Director's influence, the Chicago School of Economics and the Law and Economics program at the Law School grew up together.

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I. Hayek's "Indispensable and Pivotal Role" in Creating the School – The Van Horn – Mirowski Thesis

The salient details of VHM's account of the origins of the Chicago School may be quickly sketched. As background, the American edition of Hayek's book *The Road to Serfdom* was published in September, 1944. It sold fairly briskly, but was not a best-seller. Everything changed, however, when a *Reader's Digest* condensation by Max Eastman appeared in April 1945. Counting the original article and a subsequent Book-of-the-Month Club reprint, nearly 10 million copies of the condensation were produced. The condensation came out while Hayek was in transit by ship to the US – he was coming to do a speaking tour to promote the book. He had envisioned a rather low-key affair in which he would speak principally to a few academic audiences. By the time he had arrived the tour had been handed over to a professional promotional agency and he ended up giving talks to all manner of groups (Caldwell, in Hayek 2007, pp. 18-20).

One of these was the Detroit Economics Club, where he talked on April 23, 1945. Harold Luhnow, President of the Volker Fund, was in the audience, and he arranged a meeting with Hayek. Luhnow proposed that Hayek write an American *Road to Serfdom,* a project that the Volker Fund would underwrite. Hayek was not willing to undertake the project himself, but suggested in a letter sent from England on May 3 that Friedrich Lutz at Princeton might do it, or alternatively that "a number of people" at Chicago might be brought in (VHM 2008, p. 3). As the Chicago reference suggests, Hayek had discussed the Luhnow proposal with some Chicago academics, most importantly Henry Simons, an

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economist working at the Law School and author of *A Positive Program for Laissez Faire* ([1934] 1948).

For his part, Simons saw Luhnow's proposal as an opportunity for coaxing his friend Aaron Director back to Chicago from Washington, D.C. where the latter had been working during the war in a government office. By June 1945 Simons had prepared a memorandum that proposed an institute, with Director as director, that would publish both "scholarly and semi-popular literature" concerned with "political philosophy and practical problems of economic policy" (VHM 2008, p. 10). The institute was to run for 20 years. (This was, of course, quite a different animal from what Luhnow had wanted.) A meeting was held in Washington later that month to discuss Simons' proposal, with Simons, Director, Friedman, Herbert Stein, Homer Jones, and Fritz Machlup in attendance. Alternative proposals with shorter time frames and a greater emphasis on empirical work were advanced by some of the discussants.[4] Perhaps most important, Director was not convinced that he should leave Washington to direct the institute, which must have been a real disappointment for Simons.

Both Director and Simons reported on the meeting to Hayek, who in July corresponded with Luhnow to tell him that though he had not identified anyone to do the American *Road to Serfdom*, he was willing to come to the States in 1946 to try again. In the meantime he noted that there were other initiatives that Luhnow might want to support, and included Simons' memo about the Chicago institute as well as his own proposal for the formation of an international Acton-Tocqueville Society, an entity that

[4] Though no detailed account of the discussion at the meeting has surfaced, the proposed switch in emphasis away from philosophy and toward empirical work presumably reflected the influence of Milton Friedman.

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would ultimately become the Mont Pèlerin Society. In his August reply Luhnow did not bite; he wanted an American *Road to Serfdom,* not these other proposals.

The Volker Fund was, however, willing to finance Hayek's 1946 visits to Chicago and Stanford. By the time the trip took place the Simons proposal had morphed into something closer to what Luhnow wanted: a Free Market Study, based in Chicago and again with Director at the head, and with various others (among them Milton Friedman, who would be joining the Economics Department faculty in the fall) contributing research. The Study would produce, possibly within three years, a work of a semi-popular character that detailed the role of a free market in the allocation of goods and in the promotion of political and economic freedom. A critical provision was that Director be offered a tenured position in the Law School following a Volker-funded five year period that was to be devoted to research for and the writing of the book. Though the Law School agreed, the proposal to grant Director tenure automatically after five years was shot down by the Central Administration in a meeting in early June. Without Director, the project fell through. Shortly thereafter (June 19) Henry Simons died, having overdosed on sleeping pills. As VHM (p. 19) note, "Given the precise timing, it is difficult not to imagine some connection between Simons' suicide and the Director snafu."

While Simons' death was a both a tragedy in itself and seemingly disastrous in its consequences for the project, things were made even worse by the discovery that the rejection of Director may have rested on a misunderstanding. Soon after being notified of Simons' death Director heard from the Dean of the Law School that another plan, in which Director would come to the Law School on Volker money for five years, but without the subsequent guarantee of tenure, was on the table. Director wrote to Hayek to

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ask what he should do. Hayek urged him to accept, which Director did. Hayek's role in convincing Director to come to Chicago, according to VHM (p. 20), "demonstrates Hayek's indispensable and pivotal role in the creation of the Chicago School."

Van Horn and Mirowski are to be commended for providing this new and, in its broad outline, compelling account of the origins of the Chicago School. Given the facts of the case, as summarized above, it is clear that both Henry Simons and Friedrich Hayek played important parts in the construction of the Chicago School: as VHM put it, Hayek might be viewed as "the prime external contractor" and Simons "the prime architect." At the end of the day, however, I think that Simons played the most important part – to change metaphors, he was the leading man. And I would add to their account that "chance" should be credited with playing an important supporting role – meaning by this that, as is often the case in historical episodes, the ultimate outcome had a lot to do with the unintended consequences of the actions of many unrelated individuals.

Let us turn first to the relative weights to be given to Simons versus Hayek. Though it was Hayek whom Luhnow in the first instance contacted, it was Simons who was keen to use the opportunity to draw Director back to Chicago. Had Simons not stepped in, Hayek doubtless would have pursued Friedrich Lutz at Princeton, who apparently was his first choice to write an American *Road to Serfdom*.[5] Note too that it was Simons who transformed Luhnow's invitation to write a book into a wholly different vision, the formation of an institute that would establish the University of Chicago as a base for the study of free market ideas. As Aaron Director would write in his 1947 "Prefatory Note" to Simon's posthumously published *Economic Policy for a Free*

[5] Though in 1945 Hayek was not looking for a job in the States, two years later he was trying to get a job at Princeton. He may well have had in the back of his mind the possibility of a future job at Princeton when he thought of Lutz as a candidate for Luhnow's book project.

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Society, "Through his writings and more especially through his teaching at the University of Chicago, he [Simons] was slowly establishing himself as the head of a 'school'" (Director, in Simons 1948, p. v). Hayek, of course, wanted to use Luhnow money for a very different purpose, namely helping to fund the Mont Pèlerin Society, a project that he had had in mind since at least 1944, and probably since 1938.[6] Hayek's 1946 trip was aimed at trying to get the American *Road to Serfdom* (now transformed to the Free Market Study) underway, but he was also trying to arrange funding and identify participants for the first meeting of the Society. In this he was successful: the meeting took place in April of the next year, and the Volker Fund sprang for the travel costs of the American contingent. All of this suggests that it was Simons who had the vision of creating a school in Chicago, while Hayek's vision of creating an international society (though complementary, to be sure) was decidedly different.

I would also place less weight than do VHM on Hayek's letter of July 10, 1946, in which he urged Director to accept the new offer from the Law School.[7] It seems quite appropriate, given the death of Simons, that Director would first notify Hayek and, as it were, get his blessings on any new plan (it was, after all, frequently referred to by the principals as "the Hayek project") before accepting an offer. And, given Director's letter, *of course* Hayek was going to say that he thought that Director should accept. On this reading, what was said in the exchange between Director and Hayek was pro forma, and

[6] Hayek delivered a paper at the Political Society at King's College, Cambridge, in February 1944 in which he called for the formation of an Acton Society which would be financed by private funds. See Hayek [1967] 1992, pp. 203, 209 ff. In 1938 he participated in the Colloque Lippmann in Paris. In an interview on February 27, 1984 in which he was speaking about the beginnings of the Mont Pèlerin Society, Hayek said, "the origin of it all was really the conference of Walter Lippmann in 1938."

[7] VHM 2008, p. 20 note that the crucial line in Hayek's letter to Director read as follows: "I do want to say that in a sense it would seem to me even more important than before that you should accept...."

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indeed almost obligatory on both sides. I think that it was Simons' death that convinced Director to take the job, not Hayek's letter.[8]

What about the chance elements? Simply put, they were everywhere in this story. Had there been no *Reader's Digest* condensation of *The Road to Serfdom,* Luhnow, who from VHM's account does not strike one as a deep reader, would probably never have heard of F.A. Hayek.[9] The story of how the condensation came to be is itself also rather remarkable: apparently Harry Gideonse had a chance encounter with a Press staffer on the train into Chicago one day, and suggested that a copy of *The Road to Serfdom* be sent to Max Eastman. Eastman, former editor of *The Masses* and enthusiast for the Russian Revolution, but by then a roving editor for *Reader's Digest,* was so impressed with the book that he offered to do a condensation. What if Gideonse had missed his train that morning? Note too that Hayek's manuscript had been offered to three other presses, all

[8] That Director would oversee the republication of Simons' works suggests that he felt some kind of obligation toward his recently deceased friend, if not some responsibility. This was in any event Hayek's own view, which he shared in an interview with Bill Bartley at the Hoover Institution in October, 1983: "[In 1946] I spent 6 weeks each in Chicago and Stanford, concentrating and trying to persuade Henry Simons at Chicago to do it. Simons consented on one condition, that Aaron Director (who is here [that is, at the Hoover Institution] now) was willing to collaborate with him. And Aaron Director refused to do that. He was then in Washington in government service. I'd hardly left Chicago when Henry Simons died. He killed himself with an overdose of sleeping pills, but some people said he had the habit, every time he woke up, to take more. This happens. The curious reaction of Aaron Director was that now he saw it as his duty to continue. This led to the appointment of Aaron Director at the Law School, with the aim that he should write an American *Road to Serfdom*, which he never did. But it initiated a lot of activity of Mr. Luhnow, and I think the man turned completely crazy in the end."

In their text, Van Horn and Mirowski repeatedly refer to Simons' death as a suicide. Unless there was a suicide note (and if there was, they offer no evidence of one), the possibility suggested by Hayek – that it was an accidental overdose – must be taken seriously. Without evidence, it seems to me in poor taste simply to label it a suicide. Nor is it necessary for the story: the *possibility* that it was a suicide would, I think, have been enough to convince Director to come back to Chicago to take up the work that his friend Simons had begun.

[9] Like many others, presumably Luhnow only knew the condensation, not the book. According to VHM 2008, p. 14, Luhnow "suggested the book *How We Live* by Fred G. Clark (1944) as a stylistic model for the *American Road to Serfdom*. One doubts if Hayek had ever seen a copy, for if he had, he would have immediately soured on Luhnow. *How We Live* was a large print book, with didactic pictures facing each page of 'text', which itself consisted of single sentence paragraphs written for people who still moved their lips as they read. The quality of argument resembled a fourth-grade civics textbook."

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of which had turned him down, before it was sent to Chicago. It might well have been rejected by Chicago, too, given the distinctly ambivalent first reader's report by Frank Knight. It was the second report by the socialist Jacob Marschak that convinced the Press to take a chance on the manuscript (Caldwell, in Hayek 2007, pp. 15-19). Thus the unlikely trio of Harry Gideonse, Max Eastman and Jacob Marschak were in their own ways all bit players in the creation of the Chicago School, for without them Hayek would not have talked before the Detroit Economics Club on April 23, 1945. Finally, there is no discussion in VHM of how it was that Milton Friedman got the offer to come to Chicago, but clearly, whoever was instrumental in that decision should also be credited with helping to form the School.

II. The Larger Theme – Classical Liberalism, Neoliberalism, and Corporate Power

The VHM paper will be published in a volume titled *The Making of the Neoliberal Thought Collective* (Mirowski and Plehwe, eds. 2008), which collects papers from a conference on that theme held at NYU in April 2005.[10] As the title of the volume suggests, the purpose is to trace the development of neoliberalism, which VHM (p. 29) define as follows: "Neoliberalism is a theory of how to re-engineer the state in order to

[10] The phrase "thought collective" will for some evoke the specter of totalitarian thought control; for others it will bring to mind Ludwik Fleck's idea that scientific facts depend on styles of thought unconsciously adopted by specific scientific communities but which nonetheless control their perception of the world (Fleck 1979; cf. Cohen and Schnelle, eds. 1986). Van Horn and Mirowski may also be commenting ironically on the idea of liberals organizing to defend the market system, rather than simply trusting to spontaneous orders, as they often urge others to do (note the VHM 2008, p. 27 comment about Friedman joking to Hayek about forming an organization, which VHM liken to "the oxymoron of an 'Anarchists' Convention'"). The comment by Friedman, and its repetition in VHM, shows that none of them seem to appreciate Hayek's clear distinction between organizations and orders. Hayek certainly understood that an organization is an effective way to pursue a well-defined goal. He simply did not think that it provided an effective way to organize a complex system like an economy. For a clear exposition of the distinction, see the chapter "Cosmos and Taxis" in Hayek 1973, pp. 35-54.

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guarantee the success of the market and its most important participants, modern corporations" (p. 29).[11]

The term "neoliberalism" may not be familiar to American economists, and indeed has many connotations. For some it means simply the movement towards "market deregulation, state decentralization, and reduced state intervention into economic affairs in general" that began to take hold in countries like the U.S. and Britain the late 1970s and which was given added impetus by the collapse of the Soviet Union (Campbell and Pedersen, eds., 2001, p. 1). For others the connotations are darker. One author presents it, for example, as in an "either-or" relationship with democracy (MacEwan 1999). Another takes Coalitional Provisional Authority chief Paul Bremer's edicts on how the Iraqi economy should be run as a paradigmatic example of how to create a neoliberal state:

> According to neoliberal theory, the sorts of measures that Bremer outlined were both necessary and sufficient for the creation of wealth and therefore for the improved well-being of the population at large.... What the US evidently sought to impose by main force on Iraq was a state apparatus whose fundamental mission was to facilitate conditions for profitable capital accumulation on the part of domestic and foreign capital. I call this kind of apparatus a *neoliberal state.* The freedoms it embodies reflect the interests of private property owners, businesses, multinational corporations, and financial capital. Bremer invited the Iraqis, in

[11] The emphasis on corporations was even more evident in the original title of their paper, "The Road to a World Made Safe for Corporations: The Rise of the Chicago School of Economics."

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short, to ride their horse of freedom straight into the neoliberal corral (Harvey 2005).

Even less flattering descriptions of neoliberalism may be found on the internet.[12]

Neoliberalism, then, is not generally used as a term of approbation. The doctrine purportedly provides a rationale for powerful transnational corporations who wish to utilize the power of the state to advance their own interests. The chief desideratum of transnational capital is a stable global economy, which ensures both a steady supply of resources for the production process and a steady supply of consumers for the purchasing of goods. Corporations accordingly use international organizations like the World Bank, the WTO, and the IMF, as well as the military power of strong states (and in particular the United States) to enforce the ideology of the market and to spread Western (especially consumerist) values.

There are of course echoes here of the perennial socialist ideas that the principal aim of the liberal state is to protect the interests of the capital-owning class and that imperialism is a necessary consequence of the insatiable capitalist thirst for raw materials and for vents for their goods, as well as the age-old disdain felt by many intellectuals of

[12] Two popular (they ranked first and fifth in a search on the word "neoliberalism") and representative sites are http://en.wikipedia.org/wiki/Neoliberalism, where neoliberalism is linked with an increase in human trafficking, the traumatization of the working classes, "belligerent capitalism," and high incarceration rates in the U.S. which aim at "keeping unemployment statistics low, and stimulating economic growth through maintaining a contemporary slave population within the U.S. and promoting prison construction and militarized policing", and http://www.globalexchange.org/campaigns/econ101/neoliberalDefined.html, where the neoliberal *modus operandi* is described as follows: "A memorable definition of this process came from Subcomandante Marcos at the Zapatista-sponsored Encuentro Intercontinental por la Humanidad y contra el Neo-liberalismo (Inter-continental Encounter for Humanity and Against Neo-liberalism) of August 1996 in Chiapas when he said: 'what the Right offers is to turn the world into one big mall where they can buy Indians here, women there ...' and he might have added, children, immigrants, workers or even a whole country like Mexico."

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commerce and also of the very notion of American "culture," albeit suitably updated to reflect the current world scene.[13] What is more novel in the VHM account is the suggestion that certain intellectuals were not simply accomplices in the movement toward corporate global control of the economy, but actually helped to engineer it. For the central claim of VHM is that neoliberalism finds its origins in the writings of the members of the Chicago School and of the Mont Pèlerin Society.[14]

Neoliberalism is contrasted with classical liberalism, which preceded it. Though VHM recognize that the term "classical liberalism" is typically used to describe the views of earlier writers, for them Henry Simons, author of *A Positive Program for Laissez Faire*, is taken to be a representative modern classical liberal.[15] For those who might think that certain of Simons' policy recommendations (such as the nationalization of the railroads) sound more like socialism than liberalism, VHM counter by noting that all of Simons' proposed interventions were designed to fight concentrations of power in all of its forms, and especially monopoly power.[16] Because the aim of such interventions was "to maintain a propitious market milieu... where competition, the agency of control, can function effectively" (VHM 2008, p. 5), Simons counts as a classical liberal. As Van Horn (2008) demonstrates, in the 1930s and into the 1940s both Milton Friedman and

[13] See, e.g., Markovits 2007, who explores the longevity of European antipathy toward America, noting "how integral and ubiquitous the anti-American tropes about Americans' alleged venality, mediocrity, uncouthness, lack of culture, and above all inauthenticity have been to European elite opinion for well over two hundred years" (p. 5).

[14] VHM 2008, p. 27: "The ultimate purpose of institutions such as the MPS and the Chicago School was not so much to revive a dormant classical liberalism, as it was to forge a neo-liberalism better suited to modern conditions."

[15] VHM 2008, p. 5: "Simons' 'Positive Program' reads today more like a left-leaning attack on corporate prerogatives than anything we might today associate with a neo-conservative agenda; but in the 1930s it was situated well within the bounds of 'classical liberalism'."

[16] Thus VHM 2008, p. 5 approvingly cite Simons' claim that "*...the great enemy of democracy is monopoly, in all its forms*: gigantic corporations, trade associations and other agencies for price control, trade-unions—or, in general, organization and concentration of power within functional classes (Simons 1948, p. 43)". They do not discuss a point frequently made by Hayek that "Liberalism and democracy, although compatible, are not the same." See Hayek [1966] 1967, p. 161.

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Aaron Director appear to have held views quite similar to those of Simons regarding the dangers posed by corporations and monopoly. This was not to last, however. After Friedman and Director participated in the Free Market Study their views began to change.[17] Their final position might be summarized with the pithy line, "Corporations can do no wrong" (VHM 2008, p. 29).

Why did the change of views take place? Though VHM never quite come out and say it directly, the clear implication of their paper is that it was due to pressure from the Volker Foundation, which financed Hayek's chair at the Committee on Social Thought, provided funds for the Free Market Study and the Antitrust Project that followed it, and often paid for American scholars to attend meetings of the Mont Pèlerin Society. It is worth quoting VHM at some length here:

> The politics of postwar America presumed not only a powerful state, but also a configuration of powerful corporations whose international competitors had mostly been reduced to shadows of their former selves. In promoting 'freedom', they were primarily intent upon guaranteeing the freedom of corporations to conduct their affairs as they wished. Thus, the Volker Fund was not interested in bankrolling a classical liberal economic position resembling that of Henry Simons, for it did not adequately correspond to their objectives. American corporations did not fear concentrations of power, and generally favored the existence of a powerful Cold War state. It is our contention that the Volker Fund pushed for a reformulation of classic liberalism in the American context to

[17] This raises the question, unasked in VHM 2008, of whether had he lived Simons would also have changed his views.

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> conform to its Cold War anti-socialist agenda. The participants in the Free Market Study, and even eventually Hayek, would just have to learn to adjust to the emergent doctrines of Neoliberalism (VHM 2008, p. 24).

VHM imply that both Hayek and Friedman ultimately gave in to the pressure to toe the Luhnow line. They suggest that personal financial exigencies help to explain Hayek's capitulation – his move to Chicago coincided with his divorce from his first wife, after which, they report, as Hayek admitted to his secretary, he was forced "to do everything for money" (p. 34). On the other hand Friedman, whose *Capitalism and Freedom* they portray as providing the "corporate neoliberal version of *Road to Serfdom"* that Luhnow "had arguably paid for many times over," is excoriated (p. 36). His book is variously described as "a Volker product through and through," "low-balled towards *hoi polloi,"* a work filled with "confident bromides" that "wore its own provenance on its sleeve: it was *proud* to be the work of an intellectual for hire" (pp. 37-38).

To sum up: Henry Simons was a classical liberal because he opposed monopoly power in all its forms, which VHM take to be a defining characteristic of classical liberalism. In the years prior to the Free Market Study, both Friedman and Director shared at least some of Simons' suspicions about corporate power and the dangers of monopoly. Then they changed their mind. Though the start of the Cold War made such a move timely (a strong American state and powerful American corporations being viewed as the best safeguard against the spread of communism), the switch also involved a "follow the money" story. In short, Friedman and the others were turned by their

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corporate handlers. This then was the birth of the ideology that would later emerge in full force as neoliberalism, a term that some of the principals were using as far back as the 1930s. Another part of the larger narrative, evident in the book though not in the VHM paper about origins, is that the rapid ascendancy of neoliberal ideology in the 1990s was due in large part to the efforts of corporately financed "think tanks" that were inspired by, or were direct offshoots of, the Mont Pèlerin Society.

III. Some Problems with the VHM Theses

I wish to challenge certain of the VHM theses, but perhaps it is best to begin with certain areas of agreement. It is clearly true that free market ideology began to become more popular in the US and Britain by the early 1980s, and worldwide after the collapse of the Soviet Union. It is also evident that individuals associated with both the Mont Pèlerin Society and the Chicago School are free market advocates, and that free market think tanks have grown rather dramatically in number world-wide, especially since the 1970s. Whether one views such developments with alarm, indifference, or enthusiasm evidently depends on one's views on the benefits and costs of the deregulation and extension of markets.

The fundamental question of how important think tank activities or the Chicago School free market ideology were to the adoption of market reforms in various countries is an open one, I think. Did the intellectual arguments lead to the changes, or would we agree with George Stigler's typically cynical (but nonetheless probably more often true than not) statement about the importance of economists: "our influence appears to be powerful only when we support policies ripe for adoption" (Stigler 1987, p. 11)? My

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own priors are that in certain specific countries the influence of a think tank may have been quite important, but in general that it was the apparent manifest failures of communism that promoted a willingness to try new policies, just as the apparent manifest failures of capitalism had done in the 1930s.[18]

In any event, what is at issue here are certain specific claims made by Van Horn and Mirowski in their paper, claims that I wish to challenge. The first has to do with their portrayal of liberalism in the 1930s. I will argue that their claim that Henry Simons is best viewed as a classical liberal is unhelpful and potentially misleading, for it obscures the fact that the single most important unifying principle for 1930s liberals was their opposition to the doctrine of *laissez faire,* a doctrine that all of them associated with classical liberalism. My second objection is to the insinuation that money was the motivating factor behind Director, Friedman, and others changing their opinions in the 1950s regarding monopoly. This will bring me to my final point of dissent, in which I will argue that, at least as they appear to define it, the term "neoliberalism" is not a doctrine that any of the principal actors promoted or defended.[19] I feel that none of the claims that I will criticize is well-defended, and that their presence in the VHM paper detracts from an otherwise creditable piece of scholarship.

[18] Labour and socialist organizations produced scads of position papers in England in the 1930s, so a similar question about their influence on post-war Labour government policies might be asked. A nice starting point would be Elizabeth Durbin's important 1985 study, *New Jerusalems.*

[19] In this I echo Deepak Lal, who in the notes to the preface of his *Reviving the Invisible Hand* (which carries the subtitle *The Case for Classical Liberalism in the Twenty-First Century*) labels neoliberalism "a vile phrase" and "meaningless." Lal goes on favorably to quote Mario Vargas Llosa's assessment that the term was invented not "to express a conceptual reality, but rather as a corrosive weapon of derision... designed to semantically devalue the doctrine of liberalism" (Lal 2006, p. 237).

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Liberalisms

My first objection may well strike some as merely a verbal quibble, for words like "liberal" and "classical liberal" have certainly been used by many people in many different ways. Even so, there does exist a fair amount of consensus concerning the various historical stages of liberal thought, as a thumbnail sketch will reveal.[20]

The foundations of liberal thought may be found in the writings of such men as Locke, Montesquieu, the Scottish moral philosophers (especially Smith and Hume), and Kant, Madison, and J.S. Mill. The doctrine as it gradually emerged was associated with such ideas as the rule of law, and especially of equality before the law; the free exercise of religious expression; freedom of the press and of association; constitutionalism, the balance of powers, and free competitive elections; the protection of private property; and freedom of contract and of trade. As the nineteenth century progressed, British liberalism in particular became more and more to be identified with the idea of *laissez faire*, of complete freedom of contract and of trade, sometimes labeled Manchesterism by its opponents, and associated most closely with Richard Cobden and John Bright, the leaders of the Anti-Corn-Law League. Hayek noted that this variant of liberalism embraced "a somewhat more extreme *laissez-faire* position than would have been required by the liberal principles of Adam Smith and the classical economists following him," but also noted that

> Their predominant free trade position was combined with a strong anti-imperialist, anti-interventionist and anti-militarist attitude and an aversion to all

[20] For four assessments of liberalism from very different viewpoints, but which agree as to the major categories of liberal thought, see Hayek [1973] 1978, Hobhouse [1911] 1994, Holmes 1993, and Laski 1936.

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> expansion of government powers; the increase of public expenditures was regarded by them as mainly due to undesirable intervention in overseas affairs. Their opposition was directed chiefly against the expansion of the powers of central government, and most improvements were expected from autonomous efforts either of local government or of voluntary organizations (Hayek [1973] 1978, p. 129).[21]

Laissez faire was a *negative* doctrine – it limited government activity to the protection of life and property, the prosecution of fraud and the enforcement of contracts. Derided by socialists like Ferdinand Lassalle as "the night-watchman state," this variant of liberalism was by the close of the nineteenth century viewed by many liberal social theorists to be inadequate. A "new" or "social" liberalism, associated in Britain with the philosopher T.H. Green and the journalist, politician and social thinker L.T. Hobhouse, was born. One of the foundational principles of liberalism is that agents be allowed freely to contract. To this the social liberals added: so long as the agents are roughly comparable in bargaining strength. As Hobhouse put it, in his chapter titled (and critical of) "*Laissez Faire"*:

> True consent is free consent, and full freedom of consent implies equality on the part of both parties to the bargain. Just as the government first secured the

[21] I will simply note in passing that many self-described Austrians or Hayekians of my acquaintance would assent to everything that is said in this passage, which illustrates the difficulty of simplistic labels. Indeed, in the U.S., the only principled pre-war opposition to the pre-emptive attack on Iraq was, besides pacifists, to be found among libertarians, and their reasoning typically echoed the ideas and values articulated by Hayek in the quotation cited above.

Such views should not be confused with neoconservativism, which is very different. For example, neoconservatives might consider the restriction of trade via embargoes as simply another political tool for accomplishing their *realpolitik* ends; libertarians see free trade as an essential means to promote peace.

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> elements of freedom for all when it prevented the physically stronger man from slaying, beating, despoiling his neighbors, so it secures a larger measure of freedom for all by every restriction which it imposes with a view to preventing one man from making use of his advantages to the disadvantage of others (Hobhouse [1911] 1994, p. 43).

The new liberalism evidently opened up a much larger scope for government intervention to correct for inequalities in bargaining power.

By the 1930s liberalism in whatever form was widely considered a wholly bankrupt doctrine. It had not only failed to provide a bulwark against fascism on the continent or communism in Russia, it was held responsible for creating a depression in those countries that had not yet succumbed to totalitarianism. In the final chapter of his 1936 tome, *The Rise of Liberalism,* Harold Laski significantly wrote of liberalism in the past tense:

> The state, in fact, by reason of the interests which went into its making, had purposes more limited than the general well-being of the community. Its fundamental aim was to serve the owners of property.... given the nature of the liberal state, all questions had ultimately to be referred to the essential motive upon which the liberal state was built – the motive of profit-making....
>
> As an organized society, the liberal state, at bottom, had no defined object save the making of wealth...so obsessed had it become by its material

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achievements that it was unable to think of success in any other terms (Laski 1936, pp. 298-99).[22]

Laski was making the case for socialism, and indeed in the midst of the Great Depression, an event that many had blamed on the rise of cartels and monopolies, many among the intelligentsia thought that some form of socialist planning was the only viable way forward, constituting as it were a "middle way" between a collapsed *laissez faire* capitalist system on the one hand, and totalitarianism of the communist and fascist varieties on the other. In such an environment, "letting things be" was a laughable non-starter as a policy prescription, emblematic of the failed policies that in most people's minds had led to the current crisis. Those like Hayek who wanted to propose another sort of middle way, one that envisioned a revitalized liberalism, had to *distance* themselves from the older, *laissez faire* version of liberalism.

This is why in his 1933 inaugural lecture at the LSE Hayek faulted the classical economists for allowing "the impression to gain ground that *laissez faire* was their ultimate and only conclusion," noting that "To remedy this deficiency must be one of the main tasks of the future" (Hayek [1933] 1991, p. 31). The next year Hayek would send Henry Simons a laudatory note on the publication of *A Positive Program for Laissez Faire*. Even though he disagreed with Simons' specific policy prescription concerning nationalizing certain types of monopolistic industries, Hayek welcomed Simons' book because it was exactly the sort of thing he had called for in his inaugural – a program that defended a liberal agenda, but one that would go beyond the simple idea of *laissez*

[22] The subtitle of Laski's volume was *The Philosophy of a Business Civilization,* which echoes some of the sentiments expressed in VHM.

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faire.[23] Hayek would repeat his criticisms of *laissez faire* throughout the 1930s and 1940s, including in his opening address at the first Mont Pèlerin Society meeting.[24]

Hayek and Simons were not outliers among the small group of intellectuals who were still prepared to defend liberalism. Virtually all of the participants at the Colloque Lippmann, for example, shared their views (Mises appears to have been the only one willing to defend the old *laissez faire* doctrines).[25] Thus in the first paragraph of his opening address to the gathering, Louis Rougier took as a starting premise that the old "Manchesterian" doctrine of *laissez faire* should be abandoned (Rougier, 1938, p. 13). Where the participants differed was on the exact form that the new liberalism was to take. What changes in the institutional framework were necessary so that competition could again flourish? How far along the road from the old classical liberalism to the new more interventionist liberalism of Hobhouse and Green were they prepared to go?[26] Further discussion of such critical issues would be necessary. As noted in footnote 6, the Mont Pèlerin Society would eventually provide the venue for such discussions.

We come at last to how best to label the views held by Hayek, Simons, the Colloque Lippmann participants, and men like Director and Friedman in the 1930s. This

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[23] It should perhaps be noted that though Hayek was critical of *laissez faire* and Simons an advocate of a positive program for it, they were essentially making the same point: that one must go beyond the simple invocation of *laissez faire* to articulate and put into place the institutional setting within which competition could work. As noted above, *laissez faire* was a negative doctrine. Simons was proposing a positive alternative formulation.

[24] See, e.g., Hayek, ed., [1935] 1975, pp. 21- 22; [1939] 1997, pp. 194-195; [1944] 2007, pp. 85-86; [1947] 1948, pp. 109-111.

[25] In this regard, we might note Henry Simons' 1944 review of Mises' book, *Omnipotent Government,* where he labeled Mises "the toughest old liberal or Manchesterite of his time. Arch enemy of nazism, communism, socialism, syndicalism, protectionism, and all government interventionism, he is also perhaps the worst enemy of his own libertarian cause" (p. 192).

[26] It is significant that in the book (Lippmann 1937) that gave rise to the Colloque, Walter Lippmann mentioned not just Hayek and Mises, but John Maynard Keynes and Graham Wallas as among the contemporary thinkers whose ideas had influenced him (p. vii). That such a diverse set of thinkers could be considered as members of the same camp shows the kind of world they lived in, and should serve as a reminder to readers of today just how much the world has changed since then.

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was, of course, a problem that the principals themselves wrestled with – that is why the term "neoliberalism" was discussed at the Colloque as a possible new label.[27] VHM chose "classical liberal" to describe them. But for those who equate classical liberalism with the doctrine of *laissez faire,* this label is simply wrong, because as we have shown, all of them rejected *laissez faire*.[28] I think it is probably best to abandon any attempts at labeling, and instead simply to point out that the one idea that all of them (Mises excepted) accepted was that liberalism must move beyond the doctrine of *laissez faire*.

We may close this section by looking briefly at how Hayek, writing about liberalism some thirty five years after the Colloque Lippmann, would characterize things. In a section on "Positive Tasks of Liberal Legislation" (note the word *positive*) he chastised "traditional liberal doctrine" for never developing "a legal framework designed to preserve an effective market order" (Hayek [1973] 1978, p. 145), and went on to say

> If the free enterprise system is to work beneficially, it is not sufficient that the laws satisfy the negative criteria sketched earlier. It is also necessary that their positive content be such as to make the market mechanism operate satisfactorily. This requires in particular rules which favor the preservation of competition and restrain, so far as possible, the development of monopolistic positions. These problems were somewhat neglected by nineteenth-century liberal doctrine and

[27] As Van Horn 2008, pp. 15-16 documents, Friedman, who was not at the Colloque Lippmann, used the term "neoliberal" once in 1951 to describe his own views. He did so explicitly to distance himself from the *laissez faire* views typically associated with earlier forms of liberalism.

[28] Significantly Hayek [1973] 1978, pp. 128-29, was one who identified "classical British liberalism" with *laissez faire.* Hayek despaired over finding a good label for his own views. He did not like the word "libertarian," and liberal standing alone was apt in America to be confused with "progressive" liberalism. For reasons evident from the text, classical liberal also would not work. His final solution was to refer to himself as an "old Whig," invoking the 18th century liberal tradition that preceded the classical liberalism of Cobden and Bright.

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were examined systematically only more recently by some of the 'neo-liberal' groups.

> It is probable, however, that in the field of enterprise monopoly would never have become a serious problem if government had not assisted its development by tariffs, certain features of the law of corporations and of the law of industrial patents (ibid., pp. 145-146).[29]

Doing It for the Money

The point of the Free Market Study (1946-1952) and the Anti-Trust Project (1953-1957) was to investigate exactly what sorts of legal and institutional changes might be necessary to create and maintain an effective competitive environment, to discover, in Hayek's words, that set of rules that would "favor the preservation of competition and restrain, so far as possible, the development of monopolistic positions" Hayek [1973] 1978, p. 146). Van Horn 2008 details some of the specific issues that were examined, among them the effects of price discrimination, vertical integration, resale price maintenance agreements, and tying arrangements. A major finding of the studies was that the amounts and types of regulation of industry that had been envisioned in the 1930s and 1940s as necessary to control monopoly had been substantially overestimated. This conclusion was based in part on empirical studies by Warren Nutter (1951) and Fred Weston (1953) who had found that, contrary to then popular wisdom, the extent of monopoly had not increased over the past fifty years, and that most of the growth in firm size that had occurred was due to internal growth rather than merger activity. These and

[29] This is one of the only times that Hayek actually uses the word "neoliberal," and it is significant that, writing in 1973, he should associate it with the desire to limit monopoly power. At least in 1973, he seems to have been an unlikely architect of VHM's brand of "neoliberalism."

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other studies led them to recommend the use of an (implicit) rule of reason approach over the then predominant "per se" approach in assessing the merits of anti-trust actions in which various exclusionary practices were at issue. Perhaps the most important change, however, was to embrace the general belief that market competition itself was the most effective limit to monopoly power. As Van Horn 2008, p. 16, puts it, "...competition became Director's philosopher's stone, and the only way it would lose its prodigious powers was whenever government intervened." Van Horn contrasts this view with those held by the "Ordo-liberals" of West Germany, who favored a more activist role for anti-trust than did the Chicago School economists.

Van Horn has provided a carefully documented account of how the Free Market Study and the Anti-trust Project led Director, Friedman and others at Chicago to a more cautious view about the necessity of direct government intervention to create a competitive environment. My objection is not to Van Horn's study, but to the role it plays in the larger VHM thesis, and in particular to their suggestion there that the change in attitude toward monopoly occurred because Friedman et. al. had become "intellectuals for hire." As noted above, Van Horn and Mirowski never quite come out and say that money explains why Director and Friedman changed their views. One suspects that the main reason they do not is that, in contrast to the first part of their paper, where archival documentation of nearly every statement is provided, there appears to be little tangible evidence for the claim.[30] So what sorts of things *do* Van Horn and Mirowski mention to lend credibility to their suggestion?

[30] Their argument has all the trappings of a conspiracy theory. And of course, in the twisted world of conspiracy theory logic, the absence of evidence might well be taken as compelling evidence of the success of the conspiracy and of the thoroughness of the conspirators. Denials of any conspiracy by those accused can be similarly dismissed: *of course* they will deny it. Conspiracy theories are so long-lived precisely

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The first is the simple fact that the Free Market Study and the Anti-Trust Project were both financed by the Volker Foundation.[31] It is of course always fair to note when a study is funded by an agency that has a particular agenda. But without further supporting evidence it is a slender reed on which to hang the severe charge that one has altered one's results to satisfy those footing the bill.

A second piece of evidence is that Luhnow tried to control how his funds were used. As VHM 2008, p. 23 put it, "Luhnow and the Volker officers were not mere accessories to the rise of the Chicago school: they were hands-on players, determined and persistent in making every dollar count, supervising doctrine as well as organization." This fairly extravagant claim is supported by providing two examples of Luhnow's assertion of control. The first is that Luhnow wanted Hayek to put Loren Miller and Leonard Read on the Advisory Committee to the Free Market Study. The second is that he objected to Theodore Schultz being on the committee. Hayek went along with the first recommendation, but not with the second. This is not exactly conclusive evidence of undue influence. The fact that the Volker Fund never cut off funding for Director despite his failure to finish the promised book suggests that Luhnow's allegedly tight control of matters was perhaps somewhat less complete than VHM imagine.[32]

Additional supporting evidence is the claim that the very idea that the reemergence of competition could eliminate a monopoly was in the 1950s "an outrageous

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because they cannot be refuted: how does one prove a negative; how does one establish that one is *not* hiding something?

[31] In a footnote at the beginning of their paper, VHM 2008, p. 1 state, "This paper was not facilitated by any outside funding or support, a fact bearing some relevance to its thesis." I am not sure what the term "facilitated" means, but for the record, the conference at which the paper was presented was organized through the International Center for Advanced Studies at NYU, which over the years received support from the Ford, Rockefeller, and Mellon Foundations, as well as funding from the University itself.

[32] Ironically, one of the themes of Mirowski 2002 is that just because a certain funding agency "wants" a specific result does not mean it will get it – in that volume, Alfred Cowles and the U.S. military provided cases in point.

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oxymoron" (Van Horn 2008, p. 14), an idea in which presumably no sane person could believe without financial persuasion. It is certainly true that in the 1950s the majority view favored activist intervention for the promotion of competition – as Van Horn demonstrates, per se rules were then the norm in anti-trust matters. It was the validity of this majority opinion that the Chicago School economists were questioning.

It is not true, however, that the view that they eventually settled upon was unprecedented. As might be expected, Ludwig von Mises (writing in 1927), like Carl Menger before him (writing in 1871), claimed that monopoly profits spur others to enter the market, thereby undercutting the monopolist position (Menger 1976, pp. 216-18; Mises, 1985, pp. 90-95). Mises added that this would happen either directly through entry or indirectly through the introduction of substitutes, and claimed further that this would occur unless the market was protected from competition by government through such devices as tariff protection, tax laws, licensing arrangements, and so forth.[33] Mises expressed similar views at the Colloque Lippmann (Mises, in Rougier 1938, pp. 36-37).

Though anethema to VHM, this theme of a dynamic market process became a mainstay of the Austrian worldview.[34] From the Austrian perspective, the achievement of a monopoly position is often the reward of effective entrepreneurship, as the search for profits drives entrepreneurs to discover new products and processes. The same search for profits, however, also implies that bigness and market power are not *long run* problems, precisely because of constantly re-emerging competition. To utilize a pithy metaphor –

[33] At one point in his discussion Mises took as an example the railroad industry. Noting how there used to be much talk about the "transportation monopoly," he observed that now that competition from cars and trucks and planes was emerging, no one mentioned it anymore (Mises 1985, pp. 94-95). It is ironic that the railroad industry was one of those that Simons, writing in 1934, claimed had become so monopolized that it required nationalization.

[34] Kirzner 1973 is still perhaps the clearest exposition of the view.

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there will always been a Fortune 500, but its membership is constantly changing over time. In this view, monopoly power is always impermanent. It can only persist if it is sanctioned by government, a situation in which the control mechanism of rivalrous market competition is rendered ineffective by being declared illegal.

Mises was not alone in holding such opinions. Frank Knight, for example, wrote in 1941 (*nota bene*, well before the FMS!) that "It is needful to state that the role of 'monopoly' in actual economic life is enormously exaggerated in the popular mind and also that a large part of the monopoly which is real, and especially the worst part, is due to the activities of government" (Knight 1941, p. 103). Knight's example alone suggests at a minimum that one need not have been on the take to think that monopoly unsanctioned by government was only a minor problem.

There are additional reasons to reject the idea that Director and Friedman altered their ideas simply to please a donor. From what we know about their personalities (it is difficult to imagine anyone getting Milton Friedman to say something that he did not believe) and their actions (Director didn't even finish the book!), it is hard to credit any story that depends on their having capitulated to outside pressure. Such a story would also have to explain why they stuck with the new views once the money had stopped coming.

I have saved for last Van Horn and Mirowski's treatment of Hayek, which might be described as character assassination via innuendo. Here is what they say of Hayek, circa 1950:

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> Even though Hayek had not received a position in the economics department, he still nonetheless was paraded as a figurehead of the New Chicago to business magnates, invited to Hutchins' house to dine and deipnosophize with them. The neo-liberal project was in full swing at Chicago, and, at least initially, Hayek was its public face.[35] Later, in August, Hayek remarked to his private secretary Charlotte Cubitt that he was forced from now on "to do everything for money" (quoted in Hoover 2003, p. 195). But, in retrospect, what else could he have expected?

If one reads this straight through it would be easy to come to the conclusion that Hayek was indeed on the take, especially given his apparent contemporaneous confession to his secretary, and its juxtaposition with reports of his dinner activities with corporate magnates. A closer look, however, reveals the passage to be a carefully constructed exercise in misdirection.

Charlotte Cubitt, the source of the most damaging quote, served as Hayek's secretary from 1977 until he died in 1992, and the book that she wrote about her experiences was based on diaries she kept during that time. Though a fascinating document of the "chambermaid tells all" variety (she reports on what Hayek and his second wife clearly thought were private conversations) written by an obviously kindly

[35] What follows is the footnote that VHM provided at this point:
The British Ambassador to the United States reported in March of 1945: "Wall Street looks on Hayek as the richest goldmine yet discovered and are peddling his views everywhere" (quoted in Hoover 2003, p. 184). For example, Hayek and Hutchins entertained "Laird Bell, Chairman of the Board of Trustees of the University [of Chicago]; John Ivy, an oil operator from Huston, Texas; Meyer Kestenbaum, President of Hart, Schaffner and Marx; William J. Kelly, President of Machinery and Allied Products Institute; Oscar Mayer, President of Oscar Mayer & Company, meat packers; John L. McCaffrey, President of International Harvester Company; and Hermon D. Smith, Vice-President of Marsh & McLennan, Insurance" (Hutchins to Hayek, January 12, 1950, F.A. Hayek Collection, Hoover Institution, box 55, folder 1).

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soul, the book also contains not a few factual errors.[36] She is hardly an unimpeachable source.

In any event, Hayek's conversation with Cubitt did *not* take place in August 1950, which VHM imply (they say August but do not give the date). It was Hayek's marriage to his second wife that took place in August 1950. Hayek's conversation with Cubitt took place some *thirty odd years later*. Furthermore, the context was not a discussion of his time at Chicago. It was rather a general sort of reference to what happens after a divorce and remarriage when one's second spouse has no financial resources. By juxtaposing it with the claim that Hayek had become the "public face" of neoliberalism, VHM make it look like he was making a contemporaneous confession to something much more sinister.

But this is not all. VHM leave off the important qualification that Hayek immediately added to the statement about doing everything for the money, namely, that "he never did anything he would not have done otherwise" (Hoover 2003, p. 195).

The lengthy footnote in support of the claim that Hayek had become the public face of neoliberalism in Chicago also demands scrutiny. The British Ambassador's comment, reported on in the footnote, occurred in 1945, soon after *The Road to Serfdom* had been published. It referred to the reception of Hayek's book by the business community in 1945, not to Hayek's activities in Chicago, and indeed was made before Hayek had even met Luhnow.[37] Furthermore, we are told nothing about the purpose of the dinner that Hayek attended that is reported on in the latter part of the footnote. Was it a Board of Trustees dinner? Was President Hutchins simply trolling for potential donors?

[36]She claims, for example, that his divorce is what kept Hayek from being appointed to the Economics Department at Chicago, which is demonstrably false because it does not fit the time line of events (Cubitt 2006, p. 66). She also believed that she was going to be Hayek's biographer, and was dumbstruck when Hayek invited Bill Bartley to do the job instead.

[37] For more on the reception of *The Road to Serfdom* in the U.S., see Caldwell 2007, pp. 18-23.

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Was Hayek paid to attend? Did he speak? Did he give the same sort of speech that he did on his book tour in 1945, when he caused horror among the assembled businessmen by calling for them to open their markets to foreign competition?[38] We do not know. And as for this serving as an example of his being the public face of neoliberalism at Chicago, it should simply be noted that the dinner occurred in January, 1950, that is, *before* Hayek started working at the University and *before* his divorce.

I do not know why Hayek attended the dinner in January 1950, or what might have been said there. But it takes a considerable amount of creative interpretation (and, frankly, cheek) to link this event with an off-hand statement that he made some thirty-odd years later in a private conversation with his secretary about the financial consequences of his divorce. The statement about the divorce is, of course, the sort of exaggerated statement that virtually anyone who has been through a divorce might make – and most would, like Hayek, immediately qualify it – as if to say, well, no, I don't really mean to say that *everything* I did afterwards was for the money. In any event, we simply do not know what Hayek may have been referring to when he said what he did.[39]

One can understand why VHM were so eager to use the quotation: if one is trying to show that a group of people had become "intellectuals for hire," but have no real evidence, such a statement is just too good to give up. But their accusation is probably the most serious one that anyone can make about an intellectual. It need not be added that Hayek is a controversial figure, one with many enemies who will be happy to use such a claim, one now made by well respected scholars and in print, against him. Their carefully

[38] Ibid., p. 20.
[39] Two plausible candidates for things he did "for the money" were to leave Chicago for Freiburg in 1962 to get a pension, and to sell his library to the University of Salzburg as part of the deal to bring him there in 1968.

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worded construction seems intended expressly to discredit him. It is bad history and, really, a pretty shabby performance at that, one that cannot stand unchallenged.

I have argued that VHM have not offered much support for their suggestion that money was the motivating factor behind any change in views that may have taken place. But if it wasn't Luhnow's money, what caused the Chicago economists to reach the conclusion by the 1950s that monopoly was not the great threat that it may earlier have seemed?

I suspect that one motivating factor was that, with the onset of the Cold War, the threat of wholesale nationalization of industry in the West had more or less disappeared, so there was less urgency to come up with proposed alternatives to central planning. But it may also have been that, after studying the matter intensively for a number of years, they simply came to believe that much of the popular wisdom concerning the dangers of monopoly were overblown. Van Horn mentions the empirical work by Weston and Nutter that showed that monopoly power had not grown over the past fifty years, and that increases in firm size were due to internal growth rather than merger activity. Harberger's 1954 study on the deadweight welfare losses associated with monopoly also suggested that it was much less of a problem than had originally been thought. Another widely held view was that technological advance made the growth of monopoly inevitable. This was challenged, however, by a government study, undertaken by the Temporary National Economic Committee (TNEP) on the concentration of economic power. Noting that the committee could not be accused of having a liberal bias (it was set up by FDR), Hayek quoted some salient findings from the study in *The Road to Serfdom:*

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> The superior efficiency of large establishments has not been demonstrated; the advantages that are supposed to destroy competition have failed to manifest themselves in many fields. Nor do economies of size, where they exist, invariably necessitate monopoly....It should be noted, moreover, that monopoly is frequently the product of factors other than the lower costs of greater size. It is attained through collusive agreement and promoted by public policies. When these agreements are invalidated and when these policies are reversed, competitive conditions can be restored (TNEP, quoted in Hayek [1944] 2007, pp. 92-93).

The question of how much competition is necessary to restrain monopoly was another key issue. Of course, if one thought that markets must approximate the perfectly competitive market models of economic theory, few real world markets would be deemed "competitive." But as early as 1940 J.M. Clark had offered his theory of workable competition, one that provided empirical proxies to address just this question (Clark 1940). For his part, Hayek contributed an important piece, "The Meaning of Competition," in which he warned against the common view that "the so-called theory of 'perfect competition' provides the appropriate model for judging the effectiveness of competition in real life and that, to the extent that real competition differs from that model, it is undesirable and even harmful" (Hayek [1946] 1948, p. 92).

Van Horn and Mirowski may think little of the empirical and theoretical studies that were produced during this time and which appear to have led Friedman, Director, and Hayek to worry less about monopoly in the 1950s than they had during the intense decade of the 1930s. They may disagree with the conclusions that were reached, and wish

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to undercut them. To fail to deal with the arguments and instead simply to insinuate that anyone capable of holding such views must be on the take is not much of a response.

What Is VHM's Version of Neoliberalism, and Did the Chicago School Create It?

The central claim of the larger VHM thesis is that the doctrine called neoliberalism had its origins in the writings of the Hayek and the Chicago School economists and was subsequently spread by the activities of neoliberal think tanks. VHM 2008, pp. 28-29, offer the following description of the major tenets of neoliberalism:

> **[1] Neoliberalism starts with a critique of state reason.** The limits of government are related to intrinsic limitations on a state's power to know, and hence to supervise. These limits are not fixed for all time, however. Nevertheless, the Market always surpasses the state's ability to process information.
>
> **[2] Neoclassical economics is a good representation of the capacities of the market as information processor.** Here the Chicago Program tended to diverge from the later Hayek himself. This is related to a profound change in neoclassical economics located just after World War II (Mirowski, 2002).
>
> **[3] Politics *as if* it were a market, and an economic theory of 'democracy'.** This supports the application of neoclassical models to previously political topics; but it also explains why the neoliberal movement must seek and consolidate political power by operating from within the state. It also justifies alliances with the powerful in order to push the neoliberal agenda, and promotes a right-wing suspicion about the virtues of democracy.
>
> **[4] Government order predicated on appropriate government of the self.** Freedom is not the realization of any *telos*, but rather the positing of autonomous self-governed individuals, all naturally equipped with a neoclassical version of 'rationality' and motives of self-interest. Yet neoclassical economics was not inherently neoliberal; Chicago strove to define it as such.

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[5] Corporations can do no wrong. This is one of the strongest areas of divergence from Classical Liberalism, with its ingrained suspicion of joint stock companies and monopoly. The internal workings of the corporation are instead presented as though they were themselves normally functioning markets. This underwrites a 'degovernmentalization of the state' through privatization of education, health, and even portions of the military.

[6] Discipline of the nation-state through international initiatives. This was initially implemented through neoliberal takeover of the IMF, WTO, the World Bank, and other previously classical liberal transnational institutions. It began as advocacy of 'free trade' and floating exchange rates, but rapidly became subordinate to the programs of transnational corporations, to whom it became attached.

[7] The Market (suitably re-engineered and promoted) can always provide solutions to problems seemingly caused by The Market in the first place. Monopoly is eventually undone by 'competition'; pollution is abated by the trading of 'emissions permits'; even McCarthyism is thwarted by competition between employers (Friedman, 1962, p.20).

I have to confess that when I first read this list, I did not know exactly what to make of it. Number one seems to refer to Hayek's thesis that markets are able to coordinate dispersed information better than state planning can, and number three to public choice theory, though the characterization of the implications of public choice theory is suspect.[40] Number two refers to Mirowski's own writings about the market as an information processor, and four seems to combine the neoclassical version of methodological individualism with liberalism's insistence that the individual is the best judge of her own interests. Seven is the view that a competitive market environment

[40] Given their overriding concern about the ill effects of monopoly, one would think that VHM would embrace at least that portion of public choice analysis that deals with rent-seeking, which shows *inter alia* how powerful interests (among them corporations) use the power of the state to gain and maintain monopoly power.

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makes it difficult to sustain a monopoly, and that market solutions when feasible are preferable to command and control solutions. Five and six seem to be about how corporations use the state to accomplish their own goals.

One reason it is difficult to come to grips with the list is evident: VHM offer only one reference to the writings of any of the protagonists, and in the one reference they do make – to Friedman and McCarthyism, a reference they repeat again elsewhere in the paper – they distort Friedman's views.[41] But let us accept for the moment that Hayek and the Chicago economists believed that markets help to coordinate dispersed knowledge, that public choice theory helps to explain some of the problems that are associated with democratic governance, that a competitive market environment makes it difficult to sustain a monopoly, and that market solutions when feasible are preferable to command and control solutions.[42] These are not wildly controversial theses, at least among economists. The most important theses are not these, but points five and six about monopolies and organizations like the IMF, WTO, and World Bank. So we must ask: Where in the writings of Hayek and the Chicago economists is to be found any support for the theses that corporations can do no wrong or that international agencies overseeing trade should make themselves subservient to the wishes of transnational corporations? It is here that citations should have been provided, yet none are.

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[41] Friedman 1962, p. 20, characterized the Hollywood blacklist as "an unfree act that destroys freedom because it was a collusive arrangement that that used coercive means to prevent voluntary exchanges." He went on to contrast the fact that many people on the blacklist still were able to find employment with what the situation would have been had the state been the employer. In their second reference to Friedman's argument, VHM 2008, p. 36 deride him for having the "*chutzpah* to cite McCarthyism as 'another example of the market in promoting freedom'," which rather astonishingly suggests that Friedman favored McCarthyism.

[42] I leave off reference to methodological individualism because I think that Hayek and the Chicago economists differed on this point, and to Mirowski's thesis about neoclassical economics in the post-war period because it involves Mirowski's views rather than views held by the protagonists.

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Of course, VHM do later in the paper take Friedman's 1962 book, *Capitalism and Freedom,* as fully representative of the new neoliberal outlook. Here is their paraphrase of Friedman's views (their parenthetical references are to pages in Friedman 1962):

> Monopoly, should it exist, is blamed on the government, and deemed relatively harmless. Patents are deemed not to be monopolies simply because they participate in the definition of property rights (p.127). There is no such thing as a social or political responsibility of corporations (p.133), and as a special bonus thrown to his patrons, he proposed that the corporate income tax be abolished (p.132). The education industry should be privatized, which includes spinning off ownership of those ridiculous state universities (p.99) (VHM 2008, pp. 36-37).

This summary of Friedman's views is accurate enough, as far as it goes, though it should be added that they misrepresent his argument for eliminating the double taxation of corporate profits, which by eliminating the incentive for corporations to retain earnings would have as one of its effects a reduction in the advantage that established corporations have over new competitors (Friedman 1962, p. 130). Perhaps more egregious is that VHM neglect to include in their summary Friedman's own very clear statement about what he considers appropriate government policy regarding monopoly:

> The first and most urgent necessity in the area of government policy is the elimination of those measures which directly support monopoly, whether enterprise monopoly or labor monopoly, and an even-handed enforcement of the

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> laws on enterprises and labor unions alike. Both should be subjected to the anti-trust laws; both should be treated alike with respect to laws about the destruction of property and about interference with private activities (Friedman 1960, p. 132).

I have a hard time finding anything at all objectionable in Friedman's statement. Given VHM's clear antipathy toward his writings, it would have been helpful had they provided an argument for what they find pernicious in this view.

I suspect that there are two things that critics like VHM find objectionable. The first is the claim it is very difficult to sustain a monopoly or cartel in the long run without government protection.[43] This makes corporations seem less powerful than such critics think that they are, and it places a considerable amount of blame on government, whose regulations such critics view as holding the solution to the problem of corporate monopoly power. If this is indeed one of the chief complaints, such critics must at a minimum respond to the fundamental libertarian/Chicago/Austrian critique of government intervention, namely the fear that powerful special interests (e.g., corporations) are typically the ones that are in the best position to use the legally sanctioned and enforced power of the state to further their own interests (e.g., by limiting foreign competition through tariffs; by bringing antitrust cases against their competition). VHM somehow manage to turn this fear into a desideratum of the people they describe as

[43] As I tell my introductory classes, three conditions must be met for a cartel successfully to collude through time: they must control a large share of total output; there must be no close substitutes for their product; and they must be able easily to catch and sanction cheaters on the collusive agreement. It is possible, but difficult, for all three of these conditions to hold through time – unless, of course, the government makes it illegal or difficult (e.g., through erecting trade barriers) for new competitors to challenge the established firms.

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neoliberals: they argue that the Chicago neoliberals *want* to make such abuses easier for powerful corporations.

The second objection is to the claim that labor monopoly can be as bad or worse than enterprise monopoly.[44] This seems to favor powerful corporate interests over those of the working man. It must be emphasized that neither Hayek nor Friedman thought that there was anything wrong with the voluntary association of labor. What they criticized, again, was the government granting unions legal protection from competition, such as when closed shop laws were passed that make it illegal for non-union workers to be employed by a firm. Do VHM and other critics favor such state-granted and legally enforced monopoly privileges, and on what grounds?

On the most basic level, critics of neoliberalism seem not to understand that the greatest and most powerful monopoly is the government, precisely because it has the police power behind it. Hayek of course understood this, and restated for the twentieth century the liberal solution to the problem: the state is to be granted a monopoly over the powers of coercion, and then constitutionally limited in the use of its power to those instances where it is required to prevent coercion. For all their concern about monopoly,

[44] Interestingly, Friedman 1962, pp. 121-125 thinks that the problems posed by both enterprise and labor monopoly are overestimated, because both comprise such a small part of the overall economy, while Simons 1948, p. 55, demurs:

"Industrial monopolies are not yet a serious evil.... In a community bent on preserving libertarian democracy, enterprise monopolies, standing alone, would be diagnosed as a simple skin disease and easily remedied.

The hard monopoly problem is labor organization. Here are monopolies, actual and imminent, with really great power, economic, political, and military. Once grown large, they cannot easily be taken apart like enterprise aggregations. Like corporations and up to about the same size or scale, unions have real social uses – which may outweigh abuses. But their size potentials and their appetites for power exceed even those of business corporations."

One is tempted to ask: Should we infer from this that Simons, whom VHM are so eager to praise, would favor a per se rule for the breaking up of unions that had gotten too big?

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VHM are inexplicably sanguine about the one agency whose monopoly power is the most extensive.

To return to the main theme: VHM assert, but provide no evidence for, the claim that the Chicago School economists and Hayek supported neoliberalism. But if a key element of neoliberalism is to use the power of the state to do the bidding of big corporations, it is the exact opposite of the views that such economists have defended over the years. For them the state is something that must be limited precisely because of its own monopoly powers, and for its ability to grant its most powerful patrons legally enforceable monopoly power. The Chicago School economists favored free trade precisely because it limited the power of corporations.[45] In the topsy-turvy world of the larger VHM thesis, such men become neoliberals who favored free trade *and* a powerful state in order to *assist* large corporations.

Mario Vargas Llosa 2000, p. 16, was right: "neoliberalism" appears to be simply a term of derision, one designed to devalue the doctrine of liberalism. It was not a doctrine cooked up by Hayek and the Chicago School economists, but by opponents who wish to tar them with pernicious views in order to dismiss them. In this VHM appear to be participating in the latest instantiation of a long tradition of non-Marxist anti-liberal thought.[46]

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[45] I first saw Milton Friedman when he gave a talk at Duke University when I was in graduate school. By happenstance I ran into him as he was coming out a back exit after the talk. I identified myself as someone studying economics, and told him that I agreed with many of the things that he had said about the benefits of markets and about the unintended consequences of government interference – his talk had been about how government-mandated seat belts had increased highway fatalities – but that I worried about the market power of oligopolists. He responded by placing his hand on my shoulder and asking, "Now, what in your opinion would be the best thing we could do to reduce the power of large American corporations?" I ventured, "Open up their markets to foreign competition?" He patted me on the shoulder as if to say, "good boy," smiled his avuncular smile, and went on his way.

[46] Holmes 1993, p. 187 describes some of the tenets of the anti-liberal tradition as follows: "...classical European liberals ignored the social constitution of the individual, were scornful of the common good,

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A much simpler, and more straightforward story may be told about Hayek and the Chicago School economists. In the 1930s the few remaining intellectuals who were prepared to defend liberalism were on the defensive. Their critics accused them of embracing a policy of pure *laissez faire.* In response, they insisted that there was a role for the state in creating an environment in which competition could flourish – and they sometimes used the term "neoliberalism" to distinguish their views from *laissez faire* liberalism. Many of them initially thought that promoting a competitive environment required fairly strict control of corporations, a view that was rampant in the 1930s. But as they studied the matter more closely after the war, they came to the conclusion that the rule of reason should be used in deciding anti-trust cases rather than a per se rule, which was hardly a radical finding. VHM take three of the facts just mentioned – that some of the principals sometimes used the word "neoliberalism," that they favored a role for the state in setting up an institutional environment in which competition could work, and that they came to believe that this did not require per se rules for anti-trust – to construct the case that they were the fathers of modern neoliberalism. They provide little evidence for this controversial claim, and nowhere do they acknowledge or respond to the argument that free trade is a major impediment to corporate control.

I will conclude by noting that there *is* one set of thinkers who could with some justice accuse Friedman and Hayek of being neoliberals. Anarcho-libertarians like Murray Rothbard believe that the state should be abolished, that all state activity should be replaced by private sector provision, including the court system, police, national

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disparaged authority, sacrificed the public to the private, belittled political participation, neglected virtue, idolized economic man, declared values to be subjective, reduced man to a pleasure-pain machine, abolished self-restraint, placed excessive faith in Reason, and generally dissolved all nourishing bonds." He goes on to say, "This is a daunting list of allegations. When confronted one at a time with the claims actually defended in classic liberal texts, however, they either seem exaggerated or wrong." Precisely.

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defense, roads, and so on. Rothbard argued that the government should be subjected to the same moral and juridical calculus as an individual, and if it were, its true nature would be revealed: war (which is declared by states) is mass murder, conscription is slavery, and taxation is robbery (Rothbard 1973, p. 10). Rothbard also claimed that big corporations were responsible for the growth of the state, so as better to utilize it for their own benefit.[47] From his perspective, people like Hayek and Friedman, who acknowledged a positive role for the state, fit the description of neoliberals.[48] VHM should be cautious, though, if they are tempted to join Rothbard in his condemnation of the Chicago School economists and Hayek: Rothbard's research was frequently funded by the Volker Foundation (see Rothbard 1982, p. x)! So much for Luhnow using his money to make the world safe for corporations.

V. Epilogue – Why This Debate Will Never Go Away

I will close with a brief caricature of the monopoly power question, and then offer a personal reminiscence that ties it to the well-known Friedman-Hayek dispute over methodology. In broad outline the two sides in the monopoly power debate, one that sees the world populated by huge corporations that are out of control and must be constrained by government, the other that sees bigness everywhere but, because above normal profits provide incentives to entry or to produce substitutes, is not a problem to worry about, have existed side by side throughout the past century. One can see it in theoretical

[47] He put it this way: "...the *real* antipode to liberty today is the existing Corporate Monopoly Welfare-Warfare State.... it is precisely Big Business that is largely responsible for the twentieth century march into aggressive statism...." (Rothbard 1973, p. 17).

[48] In a recent biography of Ludwig von Mises written from an anarcho-libertarian perspective, Friedman, Hayek, and members of the Mont Pèlerin Society are indeed characterized as neoliberals. See Hülsmann 2007, pp. 708-712, 842-843, 864-872.

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debates, with, on one side, market and state socialists, Galbraith's theory of countervailing powers, theories regarding imperfect competition and strategic trade on one side, and on the other, the Austrian view, Clark's idea of workable competition, Stigler's capture theory of regulation (the notion that firms seek to be regulated to avoid competition), and Baumol's contestable markets theory. Every generation of economists seemed to provide a slightly different theoretical gloss on it, but in its broadest outline, the debate did not change much over the century.

I suspect that Friedman, the great proponent of positive economics, thought that various types of empirical studies were going to be able to answer the question once and for all. And I presume that Hayek, the great critic of scientism, thought that, in principle, no amount of data was going to be able to answer it. As a graduate student I took an industrial organization class because this was one of the questions I desperately wanted an answer to – it was the 1970s, getting an answer to the debate between capitalism and socialism was one of the reasons I was studying economics, and the tendency toward monopoly was (as always) a key question for that debate. Back in those days industrial organization was highly empirical.[49] I can well remember the first day of class when the professor told us that though there had been many hundreds of empirical papers in all areas of industrial organization as far as he could tell there were only two robust results. One of these was that there appeared to be some positive correlation between market share and profits. (I now forget the other one.) Clearly that result is consistent with the view that monopolies tend to make monopoly profits. But on the other hand, it does not provide evidence against the Austrian counterargument that, over time, such profits

[49] One of the only textbooks I ever bought without being required to was F.M. Scherer's classic 1980 text on industrial organization. Its footnotes basically provided a literature review of all the relevant empirical studies.

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cannot be sustained without government protection. I don't know of any way to test the latter claim other than to look at the make-up of the Fortune Five Hundred to see what has changed, but even if that were done, how big of a change would count? It does not seem that the key question is decidable empirically.[50]

Anyway, I submit that the fact that when Rob Van Horn and Philip Mirowski look at the world and see one thing (a world dominated by big corporations), and I look at the world and see another (constantly rotating membership in the Fortune 500), and that the debate we are having is one that has existed for more than a century of careful and creative scientific work, one thing seems clear – in terms of the debates about methodology that they had, Hayek was right about the limits of knowledge in economics, and Friedman and other positivists who hoped that empirical studies would answer such questions were wrong. Or as Hayek often put it – "what we can know in the field of economics is so much less than what people aspire to" (Hayek, in Caldwell 2004, p. 373).

[50] I think that the failure to get empirical answers to the "big questions" is one reason that industrial organization has moved away from empirical studies and today is so dominated by game theory.

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